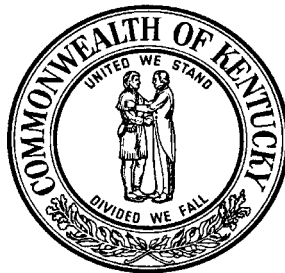


**REPORT OF THE AUDIT OF THE  
JOHNSON COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 25, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
JOHNSON COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 25, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Johnson County Sheriff as of May 25, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$5,803,705 for the districts for 2004 taxes, retaining commissions of \$235,522 to operate the Sheriff's office and paying commissions of \$1,036 to the Property Valuation Administrator. The Sheriff distributed taxes of \$5,564,118 to the districts for 2004 Taxes. Refunds of \$867 are due to the Sheriff from the taxing districts.

**Comments:**

- The Sheriff Should Consult With The Revenue Department For Advice On Commissions Paid To The Property Valuation Administrator
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable William D. Witten, Johnson County Sheriff  
Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2004 Taxes as of May 25, 2005. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid as of May 25, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2005, on our consideration of Johnson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable William D. Witten, Johnson County Sheriff  
Members of the Johnson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Consult With The Revenue Department For Advice On Commissions Paid To The Property Valuation Administrator
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 10, 2005

JOHNSON COUNTY  
WILLIAM D. WITTEN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

May 25, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 552,130	\$ 656,246	\$ 2,748,747	\$ 688,848
Tangible Personal Property	59,127	85,553	359,623	148,804
Intangible Personal Property				88,701
Fire Protection	2,550			
Increases Through Exonerations			18	
Franchise Corporation	79,537	106,126	380,432	
Additional Billings	1,258	4,642	5,190	1,573
Volunteer Fire Subscription Fees		110,377		
Unmined Coal - 2004 Taxes	1,592	1,893	6,400	1,987
Oil and Gas Property Taxes	15,051	17,890	60,492	18,779
Penalties	4,623	6,619	22,150	8,760
Adjusted to Sheriff's Receipt	<u>1</u>	<u>96</u>	<u>1</u>	<u>96</u>
Gross Chargeable to Sheriff	<u>\$ 715,869</u>	<u>\$ 989,442</u>	<u>\$ 3,583,053</u>	<u>\$ 957,548</u>
<u>Credits</u>				
Exonerations	\$ 6,734	\$ 8,039	\$ 29,473	\$ 8,806
Discounts	9,369	12,904	47,842	13,955
Delinquents:				
Real Estate	33,762	49,317	156,831	41,917
Tangible Personal Property	1,180	1,663	6,316	3,769
Intangible Personal Property				577
Unmined Coal - 2004 Taxes	334	397	1,343	417
Uncollected Franchise	<u>1,180</u>	<u>1,413</u>	<u>4,669</u>	
Total Credits	<u>\$ 52,559</u>	<u>\$ 73,733</u>	<u>\$ 246,474</u>	<u>\$ 69,441</u>
Taxes Collected	\$ 663,310	\$ 915,709	\$ 3,336,579	\$ 888,107
Less: Commissions *	<u>28,478</u>	<u>36,585</u>	<u>133,463</u>	<u>38,032</u>
Taxes Due	\$ 634,832	\$ 879,124	\$ 3,203,116	\$ 850,075
Taxes Paid	634,048	878,066	3,202,293	849,711
Refunds (Current and Prior Year)	<u>784</u>	<u>1,058</u>	<u>1,522</u>	<u>532</u>
Refunds Due Sheriff			**	
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (699)</u>	<u>\$ (168)</u>

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY  
 WILLIAM D. WITTEN, SHERIFF  
 SHERIFF'S SETTLEMENT - 2004 TAXES  
 May 25, 2005  
 (Continued)

\* Commissions:

Sheriff -

10% on	\$	10,000
4.25% on	\$	2,353,457
4% on	\$	3,336,580
1% on	\$	103,668

Property Valuation Administrator -

1% on	\$	103,668	(Note 8)
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\*\* School Taxing District:

City School	\$	<u>(699)</u>
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Refund Due Sheriff	\$	<u><u>(699)</u></u>
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JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT

May 25, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 25, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 25, 2005  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2004 through May 25, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2005 through May 25, 2005.

Note 4. Interest Income

The Johnson County Sheriff earned \$6,065 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$31,100 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Johnson County Sheriff collected \$949 of advertising costs and \$3,260 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$2,226 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 25, 2005  
(Continued)

Note 8. Property Valuation Administrator Commission

In accordance with KRS 75.450(7), the Johnson County Fiscal Court has adopted Ordinance No. 04-058 which establishes standard membership or subscriber fees for volunteer fire departments within Johnson County and provides that the membership or subscriber fees be placed on property tax bills yearly beginning with the 2004 property tax bills. The county ordinance also provides that the Sheriff and Property Valuation Administrator each collect a one percent (1%) commission on membership or subscriber fees collected by the Sheriff. The volunteer fire departments' fees were added to the 2004 property tax bills and were collected by the Sheriff as directed by the county ordinance. The Sheriff collected his 1% commission and paid a 1% commission to the Property Valuation Administrator.

Note 9. Tax Funds Not Deposited

During December 2004, \$5,014 of cash collected for taxes did not get deposited into the official bank account. The cash was on hand when the deposit was worked up at the end of the day on December 22, 2004. However, when the bank's deposit receipt was returned to the Sheriff the next day, \$5,014 in cash was missing from the receipt. The Bank officers and staff denied having any knowledge of the missing funds. The Sheriff promptly reported the missing funds to the Kentucky State Police, Johnson County Attorney, and the Auditor of Public Accounts. The Sheriff also filed a claim with his bonding company for recovery of the funds. The bonding company has subsequently returned the funds to the Sheriff's tax account and the Sheriff has made proper distribution to the taxing districts. The Kentucky State Police continues to investigate this matter to determine what happened to the tax funds missing from the deposit receipt.

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## COMMENTS AND RECOMMENDATIONS



JOHNSON COUNTY  
WILLIAM D. WITTEN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 25, 2005

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Consult With The Revenue Department For Advice On Commissions Paid To The Property Valuation Administrator

In accordance with KRS 75.450(7), the Johnson County Fiscal Court has adopted Ordinance No. 04-058 which establishes standard membership or subscriber fees for volunteer fire departments within Johnson County and provides that the membership or subscriber fees be placed on property tax bills yearly beginning with the 2004 property tax bills. The county ordinance also provides that the Sheriff and Property Valuation Administrator each collect a one percent (1%) commission on membership or subscriber fees collected by the Sheriff. The volunteer fire departments' fees were added to the 2004 property tax bills and were collected by the Sheriff as directed by the county ordinance. Further, the Sheriff collected his 1% commission and paid a 1% commission to the Property Valuation Administrator. KRS 75.040(4) allows the Sheriff to collect a fee (commission) of 1% on the amount of volunteer fire department membership or subscriber fees collected by the Sheriff. KRS 75.040 does not address a commission payment to the Property Valuation Administrator. There is no statute authorizing a Property Valuation Administrator to receive a commission on taxes collected by the Sheriff. Therefore, it appears that County Ordinance No. 04-058 does not carry legal authority to provide for a 1% commission payment to the Property Valuation Administrator. We recommend the Sheriff consult with the Kentucky Revenue Department to determine if the commission payments to the Property Valuation Administrator were legal.

*Sheriff's Response: None.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

2. The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size and budget restrictions, the County Sheriff has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

*Sheriff's Response: None.*

JOHNSON COUNTY  
WILLIAM D. WITTEN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of May 25, 2005  
(Continued)

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The comment above was not corrected and is discussed on the preceding page.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable William D. Witten, Johnson County Sheriff  
Members of the Johnson County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial Statement  
Performed In Accordance With Government Auditing Standards

We have audited the Johnson County Sheriff's Settlement - 2004 Taxes as of May 25, 2005, and have issued our report thereon dated October 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2004 Taxes as of May 25, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Consult With The Revenue Department For Advice On Commissions Paid To The Property Valuation Administrator

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 10, 2005

